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SOUTHERN DISTRICT OF CALIFORNIA

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UNITED STATES DISTRICT COURT

FOR THE SOUTHERN DISTRICT OF CALIFORNIA

SECURITIES AND EXCHANGE COMMISSION,

Plaintiff,

vs.

PLUS MONEY, INC, and MATTHEW LA MADRID

Defendants,

and

THE PREMIUM RETURN FUND LIMITED-LIABILITY LIMITED PARTNERSHIP, THE PREMIUM RETURN FUND II LIMITED-LIABILITY LIMITED PARTNERSHIP, THE PREMIUM RETURN FUND III LIMITED-LIABILITY LIMITED PARTNERSHIP, RETURN FUND LLC, RETURN FUND II, LLC, RETURN FUND III, LLC, RETURN FUND IV, LLC, RETURN FUND V, LLC, RETURN FUND VI, LLC, PALLADIUM HOLDING COMPANY, and DONALD LOPEZ,

Relief Defendants.

Case No. '08 CV 0764 H NLS

DECLARATION OF HARRY FERRARI IN SUPPORT OF PLAINTIFF SECURITIES AND EXCHANGE COMMISSION'S *EX PARTE* APPLICATION FOR TEMPORARY RESTRAINING ORDER (1) FREEZING ASSETS; (2) APPOINTING A TEMPORARY RECEIVER; (3) REQUIRING ACCOUNTINGS; (4) PROHIBITING THE DESTRUCTION OF DOCUMENTS; (5) GRANTING EXPEDITED DISCOVERY; AND ORDER TO SHOW CAUSE RE PRELIMINARY INJUNCTION AND APPOINTMENT OF A PERMANENT RECEIVER

DECLARATION OF HARRY FERRARI

I, Harry Ferrari, pursuant to 28 U.S.C. § 1746, declare as follows:

1. I have personal knowledge of each of the matters set forth below, and, if called as a witness, I could and would competently testify to the facts stated herein. I make this declaration at the request of the United States Securities and Exchange Commission.

2. I am 45 years old. I am and at all relevant times herein have been a resident of San Diego, California. I am employed as a software engineer.

3. I first learned of Plus Money, Inc. ("Plus Money") and the Premium Return Funds ("Funds") from an investor in one of the Funds, who provided me with contact information for Matthew La Madrid. In January 2006 I met with La Madrid at a local bar to discuss my interest in investing in the Funds. He told me that his investment strategy was to buy and sell covered calls. He did not discuss any other type of investment. He mentioned an investment the Fund had recently made involving the securities of Apple Computer. He told me that he made all the investment decisions on behalf of the Funds. He did not guarantee a rate of return but told me that investors in the Funds had never received less than 2.5% per month on their investment. He told me that several investors had refinanced their homes in order to invest or increase their investment in the Funds. He told me that Plus Money took a fee of 1% per quarter for its management of the Funds.

4. I was not provided with a prospectus or with financial statements for Plus Money or any of the Funds.

5. I made an initial investment of $50,000 in Premium Return Fund II in January 2006. Fund II permitted additional investments in minimum amounts of $25,000, and in March 2006 I invested an additional $25,000 in Fund II.

6. In April 2006, I corresponded with La Madrid via e-mail about the possibility of refinancing my house and using some of those monies to increase my investment in the Funds. La Madrid urged me to meet with someone who, he

claimed, worked for him about obtaining the loan. I did so and eventually obtained the desired loan. A true and correct copy of our e-mail correspondence is attached hereto as Exhibit 1.

7. Over the ensuing months I invested frequently in Fund II, using some of the loan proceeds from the refinance of my house to fund some of these investments.

8. In or about October 2006 I made an initial investment of $10,000 in Fund III, which permitted investments in minimum amounts of only $1,000.

9. In early 2007 I received from Plus Money a K-1 for the earnings I had received over the course of 2006 on my investments in the Funds. A true and correct copy of the K-1 is attached hereto as Exhibit 2.

10. In April 2007, all of the monies I had invested in Fund II were transferred to Fund III. By September, 2007, I had invested a total of $310,000 in the Funds, $50,000 of which was 401K money. The total amount invested represents about 25% of my net worth.

11. My investments with Plus Money represent the first and only time I have invested in covered calls. Prior to investing with Plus Money, my investment history was limited to investing in publicly traded companies through a licensed broker-dealer.

12. Upon investing in the Funds and through January 2008, I received monthly checks for 2.5% to 3% of the total amount I had invested in them at that time. The monthly payments were mailed to me in the form of a check.

13. Most months I also received spreadsheets containing the names of Fund investors, the amounts they had invested, the amounts they had earned on their investments, and identifying the securities for which the Funds had bought and sold covered calls. Attached hereto as Exhibits 3 and 4 are true and correct copies of spreadsheets I received for Funds II and III, detailing their performance for the fiscal year ending June 30, 2007 and for the month of July 2007. Attached

hereto as Exhibit 5 is a true and correct copy of a spreadsheet detailing the performance of Fund II for calendar year 2007.

14. In August 2007, I sent an e-mail to Plus Money with questions about the Funds and their performance. The next day I received a response. A true and correct copy of our e-mail correspondence is attached hereto as Exhibit 6.

15. In February 2008, Plus Money failed to make its scheduled monthly payment. On February 13, 2008, I received the first in a series of e-mails sent by La Madrid attempting to mollify or appease anxious Fund investors. The February 13 e-mail cites "a pending SEC inquiry" as somehow responsible for the late monthly payment. The February 28 e-mail describes the delay as "just a bump in the road." The March 5 e-mail states that "we are assured the situation is finish [sic] and our funds will be release [sic], but each morning we run into yet another delay." The March 12 e-mail states La Madrid's belief that "we have resolved this issue and can move forward in the next few days." The March 21 e-mail threatened to take legal action against a Fund investor who had spoken to an attorney. The March 30 e-mail states that "we are currently moving forward to solve this problem amicably." True and correct copies of all of the e-mails I have received from Plus Money since February 13 are attached hereto as Exhibit 7.

16. In March 2008, two months after I had received my last monthly payment and one month since the February payment was due, Plus Money provided me, for the first time, with an operating agreement.

17. To date, I have not received the monthly payments due for February, March or April 2008.

I declare under penalty of perjury under the laws of the United States of America that the foregoing is true and correct. Executed this 25 day of April 2008 in San Diego, California.

Harry Ferrari

----- Forwarded Message ----
From: "beaucalls@cox.net" <beaucalls@cox.net>
To: Harry Ferrari <harryferrari@yahoo.com>
Sent: Tuesday, April 18, 2006 4:58:26 PM
Subject: Re: Re: Investment

No you have to tax. but I'm going to help with some tax relief if possible. I'm talking to a C.P.A. regarding return of princple vs. earned income. I'll keep you posted.

>
> From: Harry Ferrari <harryferrari@yahoo.com>
> Date: 2006/04/18 Tue AM 12:25:27 EDT
> To: beaucalls@cox.net
> Subject: Re: Investment
>
> I will call Mark on Tuesday. I can use my HELOC to invest then do the
> refi to repay my HELOC.
>
> On the reinvest, can we reinvest our monthly gains and avoid tax
> consequences? I think you told me no but I cannot remember. That would
> certainly help with the compounding.
>
> harry
>
> --- beaucalls@cox.net wrote:
>
> > Yes you can invest any amount you want in the third fund. Your
> > shares in the second fund will be transfered to one share in the
> > third fund, this now can get to any dollar amount you like as long
> > as it's in one thousand dollar increments. In addition you are aloud
> > to continue to up your investments in $1,000.00 increments each
> > month. You never have to, but this is very powerful with the
> > compounding. You can not add monies to the second fund (I.R.A.'s)
> > Also, I'd like to have Mark Busby meet with you regarding your loan.
> > He works for me and can do your mortgae loan. This helps me hold a
> > share for you and gives me a time frame as to when I will need the
> > share. Please call Mark at 619-741-7611 or 619
> > 920-3439 cell.
> > If you like to meet with me I can see you on tuesday. I'm in Hawaii
> > until monday. e-mail me back as soon as possible.
> > >
> > > From: Harry Ferrari <harryferrari@yahoo.com>
> > > Date: 2006/04/13 Thu PM 11:20:49 EDT
> > > To: beaucalls@cox.net
> > > Subject: Investment
> > >
> > > I am about to start refinancing my house to get

Exhibit 1 Page 4

> > into
> > > Real Estate investments and buy more shares if you have some
> > > available. Do you have any shares
> > available?
> > >
> > > I want to invest about 175K more so I would like
> > to
> > > know if I can do that all at once or if I will
> > have to
> > > buy a share a month or something like that.
> > >
> > > harry
> > >

Exhibit 2

RETURN FUND III, LLC
175 WEST LEXINGTON AVENUE
EL CAJON, CA 92020

March 29, 2007

HARRY T FERRARI
[redacted]

RE:
RETURN FUND III, LLC
56-2562683
Schedule K-1 from Partnership's 2006 Return of Income

Dear HARRY T FERRARI:

Enclosed is your 2006 Schedule K-1 (Form 1065) Partner's Share of Income, Deductions, Credits, Etc. from RETURN FUND III, LLC. This information reflects the amounts you need to complete your income tax return. The amounts shown are your distributive share of partnership tax items to be reported on your tax return, and may not correspond to actual distributions you have received during the year. This information is included in the Partnership's 2006 Federal Return of Partnership Income that was filed with the Internal Revenue Service.

If you have any questions concerning this information, please contact us immediately.

Sincerely,

RETURN FUND III, LLC

Enclosure(s)

Exhibit 2 Page 6

651106

Schedule K-1 (Form 1065) **2006**

Department of the Treasury Internal Revenue Service

For calendar year 2006, or tax year beginning ____ 2006 ending ____

☐ Final K-1 ☐ Amended K-1 OMB No. 1545-0099

Partner's Share of Income, Deductions, Credits, etc.

► See separate instructions.

Part I Information About the Partnership

A Partnership's employer identification number
56-2562683

B Partnership's name, address, city, state, and ZIP code

RETURN FUND III, LLC
175 WEST LEXINGTON AVENUE
EL CAJON, CA 92020

C IRS Center where partnership filed return
Ogden, UT

D ☐ Check if this is a publicly traded partnership (PTP)

E ☐ Tax shelter registration number, if any

F ☐ Check if Form 8271 is attached

Part II Information About the Partner

G Partner's identifying number
[redacted]

H Partner's name, address, city, state, and ZIP code

HARRY T FERRARI
[redacted]

I ☐ General partner or LLC member-manager [X] Limited partner or other LLC member

J [X] Domestic partner ☐ Foreign partner

K What type of entity is this partner? Individual

L Partner's share of profit, loss, and capital:

	Beginning	Ending
Profit	%	%
Loss	%	%
Capital	%	%

M Partner's share of liabilities at year end:

Nonrecourse	$
Qualified nonrecourse financing	$
Recourse	$

N Partner's capital account analysis:

Beginning capital account	$ 0.
Capital contributed during the year	$
Current year increase (decrease)	$ 23,973.
Withdrawals and distributions	$
Ending capital account	$ 0.

[X] Tax basis ☐ GAAP ☐ Section 704(b) book
☐ Other (explain)

Part III Partner's Share of Current Year Income, Deductions, Credits, and Other Items

1	Ordinary business income (loss)	
2	Net rental real estate income (loss)	
3	Other net rental income (loss)	
4	Guaranteed payments	
5	Interest income	
6a	Ordinary dividends	
6b	Qualified dividends	
7	Royalties	
8	Net short-term capital gain (loss)	
9a	Net long-term capital gain (loss)	
9b	Collectibles (28%) gain (loss)	
9c	Unrecaptured section 1250 gain	
10	Net section 1231 gain (loss)	
11	Other income (loss)	F* 23,973.
12	Section 179 deduction	
13	Other deductions	
14	Self-employment earnings (loss)	
15	Credits	
16	Foreign transactions	
17	Alternative minimum tax (AMT) items	
18	Tax-exempt income and nondeductible expenses	
19	Distributions	
20	Other information	

*See attached statement for additional information.

FOR IRS USE ONLY

BAA For Privacy Act and Paperwork Reduction Act Notice, see Instructions for Form 1065. Schedule K-1 (Form 1065) 2006

Partner 144 PTPA0312 12/08/06

Exhibit 2 Page 7

Schedule K-1 (Form 1065) 2006 RETURN FUND III, LLC 56-2562683 Page 2

This list identifies the codes used on Schedule K-1 for all partners and provides summarized reporting information for partners who file Form 1040. For detailed reporting and filing information, see the separate Partner's Instructions for Schedule K-1 and the instructions for your income tax return.

1 **Ordinary business income (loss).** You must first determine whether the income (loss) is passive or nonpassive. Then enter on your return as follows:

	Report on
Passive loss	See the Partner's Instructions
Passive income	Schedule E, line 28, column (g)
Nonpassive loss	Schedule E, line 28, column (h)
Nonpassive income	Schedule E, line 28, column (j)
2 **Net rental real estate income (loss)**	See the Partner's Instructions
3 **Other net rental income (loss)**	
Net income	Schedule E, line 28, column (g)
Net loss	See the Partner's Instructions
4 **Guaranteed payments**	Schedule E, line 28, column (j)
5 **Interest income**	Form 1040, line 8a
6a **Ordinary dividends**	Form 1040, line 9a
6b **Qualified dividends**	Form 1040, line 9b
7 **Royalties**	Schedule E, line 4
8 **Net short-term capital gain (loss)**	Schedule D, line 5, column (f)
9a **Net long-term capital gain (loss)**	Schedule D, line 12, column (f)
9b **Collectibles (28%) gain (loss)**	28% Rate Gain Worksheet, line 4 (Schedule D instructions)
9c **Unrecaptured section 1250 gain**	See the Partner's Instructions
10 **Net section 1231 gain (loss)**	See the Partner's Instructions
11 **Other income (loss)**	

Code	Report on
A Other portfolio income (loss)	See the Partner's Instructions
B Involuntary conversions	See the Partner's Instructions
C Section 1256 contracts and straddles	Form 6781, line 1
D Mining exploration costs recapture	See Pub 535
E Cancellation of debt	Form 1040, line 21 or Form 982
F Other income (loss)	See the Partner's Instructions
12 **Section 179 deduction**	See the Partner's Instructions
13 **Other deductions**	
A Cash contributions (50%)	See the Partner's Instructions
B Cash contributions (30%)	See the Partner's Instructions
C Noncash contributions (50%)	See the Partner's Instructions
D Noncash contributions (30%)	See the Partner's Instructions
E Capital gain property to a 50% organization (30%)	See the Partner's Instructions
F Capital gain property (20%)	See the Partner's Instructions
G Investment interest expense	Form 4952, line 1
H Deductions — royalty income	Schedule E, line 18
I Section 59(e)(2) expenditures	See the Partner's Instructions
J Deductions — portfolio (2% floor)	Schedule A, line 22
K Deductions — portfolio (other)	Schedule A, line 27
L Amounts paid for medical insurance	Schedule A, line 1 or Form 1040, line 29
M Educational assistance benefits	See the Partner's Instructions
N Dependent care benefits	Form 2441, line 12
O Preproductive period expenses	See the Partner's Instructions
P Commercial revitalization deduction from rental real estate activities	See Form 8582 instructions
Q Pensions and IRAs	See the Partner's Instructions
R Reforestation expense deduction	See the Partner's Instructions
S Domestic production activities information	See Form 8903 instructions
T Qualified production activities income	Form 8903, line 7
U Employer's W-2 wages	Form 8903, line 13
V Other deductions	See the Partner's Instructions
14 **Self-employment earnings (loss)**	

Note: If you have a section 179 deduction or any partner level deductions, see the Partner's Instructions before completing Schedule SE.

Code	Report on
A Net earnings (loss) from self-employment	Schedule SE, Section A or B
B Gross farming or fishing income	See the Partner's Instructions
C Gross non-farm income	See the Partner's Instructions
15 **Credits**	
A Low-income housing credit (section 42(j)(5))	See the Partner's Instructions
B Low-income housing credit (other)	See the Partner's Instructions
C Qualified rehabilitation expenditures (rental real estate)	See the Partner's Instructions
D Other rental real estate credits	See the Partner's Instructions
E Other rental credits	See the Partner's Instructions
F Undistributed capital gains credit	Form 1040, line 70; check box a
G Credit for alcohol used as fuel	See the Partner's Instructions
H Work opportunity credit	See the Partner's Instructions
I Welfare-to-work credit	See the Partner's Instructions
J Disabled access credit	See the Partner's Instructions
K Empowerment zone and renewal community employment credit	Form 8844, line 3
L Credit for increasing research activities	See the Partner's Instructions
M New markets credit	See the Partner's Instructions
N Credit for employer social security and Medicare taxes	See the Partner's Instructions
O Backup withholding	Form 1040, line 64
P Other credits	See the Partner's Instructions
16 **Foreign transactions**	
A Name of country or U.S. possession	Form 1116, Part I
B Gross income from all sources	Form 1116, Part I
C Gross income sourced at partner level	Form 1116, Part I
Foreign gross income sourced at partnership level	
D Passive	Form 1116, Part I
E Listed categories	Form 1116, Part I
F General limitation	Form 1116, Part I
Deductions allocated and apportioned at partner level	
G Interest expense	Form 1116, Part I
H Other	Form 1116, Part I
Deductions allocated and apportioned at partnership level to foreign source income	
I Passive	Form 1116, Part I
J Listed categories	Form 1116, Part I
K General limitation	Form 1116, Part I
Other information	
L Total foreign taxes paid	Form 1116, Part II
M Total foreign taxes accrued	Form 1116, Part II
N Reduction in taxes available for credit	Form 1116, line 12
O Foreign trading gross receipts	Form 8873
P Extraterritorial income exclusion	Form 8873
Q Other foreign transactions	See the Partner's Instructions
17 **Alternative minimum tax (AMT) items**	
A Post-1986 depreciation adjustment	See the Partner's Instructions and the Instructions for Form 6251
B Adjusted gain or loss	See the Partner's Instructions and the Instructions for Form 6251
C Depletion (other than oil & gas)	See the Partner's Instructions and the Instructions for Form 6251
D Oil, gas, & geothermal — gross income	See the Partner's Instructions and the Instructions for Form 6251
E Oil, gas, & geothermal — deductions	See the Partner's Instructions and the Instructions for Form 6251
F Other AMT items	See the Partner's Instructions and the Instructions for Form 6251
18 **Tax-exempt income and nondeductible expenses**	
A Tax-exempt interest income	Form 1040, line 8b
B Other tax-exempt income	See the Partner's Instructions
C Nondeductible expenses	See the Partner's Instructions
19 **Distributions**	
A Cash and marketable securities	See the Partner's Instructions
B Other property	See the Partner's Instructions
20 **Other information**	
A Investment income	Form 4952, line 4a
B Investment expenses	Form 4952, line 5
C Fuel tax credit information	Form 4136
D Qualified rehabilitation expenditures (other than rental real estate)	See the Partner's Instructions
E Basis of energy property	See the Partner's Instructions
F Recapture of low-income housing credit (section 42(j)(5))	Form 8611, line 8
G Recapture of low-income housing credit (other)	Form 8611, line 8
H Recapture of investment credit	Form 4255
I Recapture of other credits	See the Partner's Instructions
J Look-back interest — completed long-term contracts	See Form 8697
K Look-back interest — income forecast method	See Form 8866
L Dispositions of property with section 179 deductions	See the Partner's Instructions
M Recapture of section 179 deductions	See the Partner's Instructions
N Interest expense for corporate partners	See the Partner's Instructions
O Section 453(l)(3) information	See the Partner's Instructions
P Section 453A(c) information	See the Partner's Instructions
Q Section 1260(b) information	See the Partner's Instructions
R Interest allocable to production expenditures	See the Partner's Instructions
S CCF nonqualified withdrawals	See the Partner's Instructions
T Information needed to figure depletion — oil and gas	See the Partner's Instructions
U Amortization of reforestation costs	See the Partner's Instructions
V Unrelated business taxable income	See the Partner's Instructions
W Other information	See the Partner's Instructions

PTPA0312L 12/08/06

Partner 144: HARRY T FERRARI [redacted]

Exhibit 2 Page 8

Box 11
Other Income (Loss)

* Descriptive Information

F	OPTION INCOME	$	23,973.

YEAR 2006

Member's Share of Income, Deductions, Credits, etc.

CALIFORNIA SCHEDULE **K-1 (568)**

For calendar year 2006 or fiscal year beginning month day year 2006, and ending month day year

Member's identifying number [redacted]

Member's name, address, state, and ZIP Code

HARRY T FERRARI
[redacted]

LLC's FEIN 56-2562683

Secretary of State file number

LLC's name, address, state, and ZIP Code

RETURN FUND III, LLC
175 WEST LEXINGTON AVENUE
EL CAJON, CA 92020

A What type of entity is this member?
(1) [X] Individual (2) [ ] S Corporation (3) [ ] Estate/Trust (4) [ ] C Corporation (5) [ ] General Partnership (6) [ ] Limited Partnership (7) [ ] LLP (8) [ ] LLC (9) [ ] IRA/Keogh/SEP (10) [ ] Exempt Organization (11) [ ] Disregarded Entity

B Is this member a foreign member? [ ] Yes [X] No

C Enter member's percentage (without regard to special allocations) of: (i) Before decrease or termination (ii) End of year

	(i) Before decrease or termination	(ii) End of year
Profit sharing	%	%
Loss sharing	%	%
Ownership of capital	%	%

D Member's share of liabilities:
Nonrecourse $
Qualified nonrecourse financing $
Other $

E Tax shelter registration number

F (1) Check here if this is a publicly traded partnership as defined in IRC Section 469(k)(2) [ ]
(2) Check here if this is an investment partnership (R&TC Sections 17955 and 23040.1) [ ]

G Check here if this is: (1) [ ] A final Schedule K-1 (568) (2) [ ] An amended Schedule K-1 (568)

H Is this member a nonresident of California? [ ] Yes [X] No

I Analysis of member's capital account: Check the box (1) [X] Tax Basis (2) [ ] GAAP (3) [ ] Sec 704(b) Bk (4) [ ] Other (explain)

(a) Capital account at beginning of year	(b) Capital contributed during year	(c) Member's share of line 3, line 4, and line 7 Form 568, Schedule M-2	(d) Withdrawals and distributions	(e) Capital account at end of year, combine column (a) through column (d)
0.		23,973.		0.

Caution: Refer to Member's Instructions for Schedule K-1 (568) before entering information from this schedule on your California return.

	(a) Distributive share items	(b) Amounts from federal Schedule K-1 (1065)	(c) California adjustments	(d) Total amounts using California law. Combine column (b) and column (c)	(e) California source amounts and credits
Income (Loss)	1 Ordinary income (loss) from trade or business activities				
	2 Net income (loss) from rental real estate activities				
	3 Net income (loss) from other rental activities				
	4 Portfolio income (loss):				
	a Interest				
	b Dividends				
	c Royalties				
	d Net capital gain (loss)				
	e Other portfolio income (loss)				
	5 Guaranteed payments to members				
	6a Total Gain under IRC Section 1231 (other than due to casualty or theft)				
	b Total Loss under IRC Section 1231 (other than due to casualty or theft)				
	7a Total other income. Attach schedule. Line 22	23,973.		23,973.	
	b Total other loss. Attach schedule				
Deductions	8 Charitable contributions				
	9 Expense deduction for recovery property (R&TC Sections 17267.2, 17267.6, 17268, and IRC Section 179). Attach schedule		-		
	10 Deductions related to portfolio income. Attach schedule				
	11 Other deductions. Attach schedule				

Member 144

For Privacy Notice, get form FTB 1131 051 7901064

Exhibit 2 Page 10

RETURN FUND III, LLC 56-2562683

	(a) Distributive share items	(b) Amounts from federal Schedule K-1 (1065)	(c) California adjustments	(d) Total amounts using California law. Combine column (b) and column (c)	(e) California source amounts and credits
Investment Interest	12a Interest expense on investment debts				
	b (1) Investment income included on lines 4a, 4b, 4c, and 4e				
	(2) Investment expenses included on line 10				
Credits	13a Total withholding (equals amt on Form 592-B if cal year LLC)			•	▶
	b Low-income housing credit				
	c Credits other than line 13b related to rental real estate activities. Attach schedule				
	d Credits related to other rental activities. See instructions				
	e Nonconsenting nonresident member's tax paid by LLC				
	14 Other credits. Attach required schedules or statements				
Adjustments and Tax Preference Items	15a Depreciation adjustment on property placed in service after 1986				
	b Adjusted gain or loss				
	c Depletion (other than oil and gas)				
	d (1) Gross income from oil, gas, and geothermal properties				
	(2) Deductions allocable to oil, gas, and geothermal properties				
	e Other adjustments and tax preference items. Attach schedule				
Other	16a Total expenditures to which an IRC Section 59(e) election may apply				
	b Type of expenditures				
	17 Tax-exempt interest income				
	18 Other tax-exempt income				
	19 Nondeductible expenses				
	20 Distributions of money (cash and marketable securities)				
	21 Distributions of property other than money				
	22 Supplemental info required to be reported separately to each member. Attach additional schedules. See instrs				$

Table 1 – Member's share of nonbusiness income from intangibles (source of income is dependent on residence or commercial domicile of the member):

Interest.... $ ______ Sec 1231 Gains/Losses... $ ______ Capital Gains/Losses .. $ ______
Dividends.. $ ______ Royalties .... $ ______ Other .... $ ______

FOR USE BY APPORTIONING UNITARY MEMBERS ONLY – See instructions.

Table 2 – Member's share of distributive items.

A Member's share of the LLC's business income. See instructions .... $ ______

B Member's share of nonbusiness income from real and tangible personal property sourced or allocable to California.

Capital Gains/Losses .... $ ______ Rents/Royalties ... $ ______
Section 1231 Gains/Losses .... $ ______ Other .... $ ______

C Member's distributive share of the LLC's property, payroll, and sales:

Factors	Total within and outside California	Total within California
Property: Beginning	$	$
Ending	$	$
Annual Rent Expense	$	$
Payroll	$	$
Sales	$	$

Member 144

Exhibit 2 Page 11

RETURN FUND III, LLC 56-2562683

Schedule K-1 (Form 568) 2006 **Line 22, Supplemental Information (continued)** Page 3

Line 7a, column (d)
Other Income

OPTION INCOME	$	23,973.
Total	$	23,973.

RETURN FUND II, LLC
175 WEST LEXINGTON AVENUE
EL CAJON, CA 92020
(619) 749-8930

March 29, 2007

HARRY T. FERRARI
[redacted]

RE:
RETURN FUND II, LLC
20-3049379
Schedule K-1 from Partnership's 2006 Return of Income

Dear HARRY T. FERRARI:

Enclosed is your 2006 Schedule K-1 (Form 1065) Partner's Share of Income, Deductions, Credits, Etc. from RETURN FUND II, LLC. This information reflects the amounts you need to complete your income tax return. The amounts shown are your distributive share of partnership tax items to be reported on your tax return, and may not correspond to actual distributions you have received during the year. This information is included in the Partnership's 2006 Federal Return of Partnership Income that was filed with the Internal Revenue Service.

If you have any questions concerning this information, please contact us immediately.

Sincerely,

RETURN FUND II, LLC

Enclosure(s)

651106

Final K-1 Amended K-1 OMB No. 1545-0099

Schedule K-1 (Form 1065) **2006**

For calendar year 2006, or tax year beginning ______ 2006 ending ______

Department of the Treasury Internal Revenue Service

Partner's Share of Income, Deductions, Credits, etc.

See separate instructions.

Part I Information About the Partnership

A Partnership's employer identification number
20-3049379

B Partnership's name, address, city, state, and ZIP code

RETURN FUND II, LLC
175 WEST LEXINGTON AVENUE
EL CAJON, CA 92020

C IRS Center where partnership filed return
Ogden, UT

D [ ] Check if this is a publicly traded partnership (PTP)

E [ ] Tax shelter registration number, if any

F [ ] Check if Form 8271 is attached

Part II Information About the Partner

G Partner's identifying number
[redacted]

H Partner's name, address, city, state, and ZIP code

HARRY T. FERRARI
[redacted]

I [ ] General partner or LLC member-manager [X] Limited partner or other LLC member

J [X] Domestic partner [ ] Foreign partner

K What type of entity is this partner? Individual

L Partner's share of profit, loss, and capital:

	Beginning	Ending
Profit	%	%
Loss	%	%
Capital	%	%

M Partner's share of liabilities at year end:

Nonrecourse	$
Qualified nonrecourse financing	$
Recourse	$

N Partner's capital account analysis:

Beginning capital account	$ 0.
Capital contributed during the year	$
Current year increase (decrease)	$ 15,874.
Withdrawals and distributions	$
Ending capital account	$ 0.

[X] Tax basis [ ] GAAP [ ] Section 704(b) book
[ ] Other (explain)

Part III Partner's Share of Current Year Income, Deductions, Credits, and Other Items

1	Ordinary business income (loss)	
2	Net rental real estate income (loss)	
3	Other net rental income (loss)	
4	Guaranteed payments	
5	Interest income	
6a	Ordinary dividends	
6b	Qualified dividends	
7	Royalties	
8	Net short-term capital gain (loss)	
9a	Net long-term capital gain (loss)	
9b	Collectibles (28%) gain (loss)	
9c	Unrecaptured section 1250 gain	
10	Net section 1231 gain (loss)	
11	Other income (loss)	
F*		15,874.
12	Section 179 deduction	
13	Other deductions	
14	Self-employment earnings (loss)	
15	Credits	
16	Foreign transactions	
17	Alternative minimum tax (AMT) items	
18	Tax-exempt income and nondeductible expenses	
19	Distributions	
20	Other information	

*See attached statement for additional information.

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Partner 94

Exhibit 2 Page 14

This list identifies the codes used on Schedule K-1 for all partners and provides summarized reporting information for partners who file Form 1040. For detailed reporting and filing information, see the separate Partner's Instructions for Schedule K-1 and the instructions for your income tax return.

		Report on
1	**Ordinary business income (loss).** You must first determine whether the income (loss) is passive or nonpassive. Then enter on your return as follows:	
	Passive loss	See the Partner's Instructions
	Passive income	Schedule E, line 28, column (g)
	Nonpassive loss	Schedule E, line 28, column (h)
	Nonpassive income	Schedule E, line 28, column (j)
2	**Net rental real estate income (loss)**	See the Partner's Instructions
3	**Other net rental income (loss)**	
	Net income	Schedule E, line 28, column (g)
	Net loss	See the Partner's Instructions
4	**Guaranteed payments**	Schedule E, line 28, column (j)
5	**Interest income**	Form 1040, line 8a
6a	**Ordinary dividends**	Form 1040, line 9a
6b	**Qualified dividends**	Form 1040, line 9b
7	**Royalties**	Schedule E, line 4
8	**Net short-term capital gain (loss)**	Schedule D, line 5, column (f)
9a	**Net long-term capital gain (loss)**	Schedule D, line 12, column (f)
9b	**Collectibles (28%) gain (loss)**	28% Rate Gain Worksheet, line 4 (Schedule D Instructions)
9c	**Unrecaptured section 1250 gain**	See the Partner's Instructions
10	**Net section 1231 gain (loss)**	See the Partner's Instructions
11	**Other income (loss)**	
	Code	
	A Other portfolio income (loss)	See the Partner's Instructions
	B Involuntary conversions	See the Partner's Instructions
	C Section 1256 contracts and straddles	Form 6781, line 1
	D Mining exploration costs recapture	See Pub 535
	E Cancellation of debt	Form 1040, line 21 or Form 982
	F Other income (loss)	See the Partner's Instructions
12	**Section 179 deduction**	See the Partner's Instructions
13	**Other deductions**	
	A Cash contributions (50%)	See the Partner's Instructions (A–F)
	B Cash contributions (30%)	
	C Noncash contributions (50%)	
	D Noncash contributions (30%)	
	E Capital gain property to a 50% organization (30%)	
	F Capital gain property (20%)	
	G Investment interest expense	Form 4952, line 1
	H Deductions — royalty income	Schedule E, line 18
	I Section 59(e)(2) expenditures	See the Partner's Instructions
	J Deductions — portfolio (2% floor)	Schedule A, line 22
	K Deductions — portfolio (other)	Schedule A, line 27
	L Amounts paid for medical insurance	Schedule A, line 1 or Form 1040, line 29
	M Educational assistance benefits	See the Partner's Instructions
	N Dependent care benefits	Form 2441, line 12
	O Preproductive period expenses	See the Partner's Instructions
	P Commercial revitalization deduction from rental real estate activities	See Form 8582 Instructions
	Q Pensions and IRAs	See the Partner's Instructions
	R Reforestation expense deduction	See the Partner's Instructions
	S Domestic production activities information	See Form 8903 Instructions
	T Qualified production activities income	Form 8903, line 7
	U Employer's W-2 wages	Form 8903, line 13
	V Other deductions	See the Partner's Instructions
14	**Self-employment earnings (loss)**	

Note. If you have a section 179 deduction or any partner-level deductions, see the Partner's Instructions before completing Schedule SE.

		Report on
	A Net earnings (loss) from self-employment	Schedule SE, Section A or B
	B Gross farming or fishing income	See the Partner's Instructions
	C Gross non-farm income	See the Partner's Instructions
15	**Credits**	
	A Low-income housing credit (section 42(j)(5))	See the Partner's Instructions (A–E)
	B Low-income housing credit (other)	
	C Qualified rehabilitation expenditures (rental real estate)	
	D Other rental real estate credits	
	E Other rental credits	
	F Undistributed capital gains credit	Form 1040, line 70; check box a
	G Credit for alcohol used as fuel	See the Partner's Instructions
	H Work opportunity credit	See the Partner's Instructions (H–J)
	I Welfare-to-work credit	
	J Disabled access credit	
	Code	*Report on*
	K Empowerment zone and renewal community employment credit	Form 8844, line 3
	L Credit for increasing research activities	See the Partner's Instructions (L–N)
	M New markets credit	
	N Credit for employer social security and Medicare taxes	
	O Backup withholding	Form 1040, line 64
	P Other credits	See the Partner's Instructions
16	**Foreign transactions**	
	A Name of country or U.S. possession	Form 1116, Part I (A–C)
	B Gross income from all sources	
	C Gross income sourced at partner level	
	Foreign gross income sourced at partnership level	
	D Passive	Form 1116, Part I (D–F)
	E Listed categories	
	F General limitation	
	Deductions allocated and apportioned at partner level	
	G Interest expense	Form 1116, Part I
	H Other	Form 1116, Part I
	Deductions allocated and apportioned at partnership level to foreign source income	
	I Passive	Form 1116, Part I (I–K)
	J Listed categories	
	K General limitation	
	Other information	
	L Total foreign taxes paid	Form 1116, Part II
	M Total foreign taxes accrued	Form 1116, Part II
	N Reduction in taxes available for credit	Form 1116, line 12
	O Foreign trading gross receipts	Form 8873
	P Extraterritorial income exclusion	Form 8873
	Q Other foreign transactions	See the Partner's Instructions
17	**Alternative minimum tax (AMT) items**	
	A Post-1986 depreciation adjustment	See the Partner's Instructions and the Instructions for Form 6251 (A–F)
	B Adjusted gain or loss	
	C Depletion (other than oil & gas)	
	D Oil, gas, & geothermal — gross income	
	E Oil, gas, & geothermal — deductions	
	F Other AMT items	
18	**Tax-exempt income and nondeductible expenses**	
	A Tax-exempt interest income	Form 1040, line 8b
	B Other tax-exempt income	See the Partner's Instructions
	C Nondeductible expenses	See the Partner's Instructions
19	**Distributions**	
	A Cash and marketable securities	See the Partner's Instructions
	B Other property	See the Partner's Instructions
20	**Other information**	
	A Investment income	Form 4952, line 4a
	B Investment expenses	Form 4952, line 5
	C Fuel tax credit information	Form 4136
	D Qualified rehabilitation expenditures (other than rental real estate)	See the Partner's Instructions
	E Basis of energy property	See the Partner's Instructions
	F Recapture of low-income housing credit (section 42(j)(5))	Form 8611, line 8
	G Recapture of low-income housing credit (other)	Form 8611, line 8
	H Recapture of investment credit	Form 4255
	I Recapture of other credits	See the Partner's Instructions
	J Look-back interest — completed long-term contracts	See Form 8697
	K Look-back interest — income forecast method	See Form 8866
	L Dispositions of property with section 179 deductions	See the Partner's Instructions (L–W)
	M Recapture of section 179 deduction	
	N Interest expense for corporate partners	
	O Section 453(l)(3) information	
	P Section 453A(c) information	
	Q Section 1260(b) information	
	R Interest allocable to production expenditures	
	S CCF nonqualified withdrawals	
	T Information needed to figure depletion — oil and gas	
	U Amortization of reforestation costs	
	V Unrelated business taxable income	
	W Other information	

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Partner 94: HARRY T. FERRARI [redacted]

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Box 11
Other Income (Loss)

* Descriptive Information

F	OPTION INCOME	$	15,874.

YEAR 2006

Partner's Share of Income, Deductions, Credits, etc.

CALIFORNIA SCHEDULE
K-1 (565)

For calendar year 2006 or fiscal year beginning month ___ day ___ year 2006, and ending month ___ day ___ year ___

Partner's identifying number [redacted]

Partner's name, address, city, state, and ZIP Code

HARRY T. FERRARI
[redacted]

Partnership's FEIN 20-3049379

Secretary of State file number

Partnership's name, address, city, state, and ZIP Code

RETURN FUND II, LLC
175 WEST LEXINGTON AVENUE
EL CAJON, CA 92020

A Is this partner a: • (1) [ ] general partner; or (2) [X] limited partner?

B What type of entity is this partner? •

(1) [X] Individual (5) [ ] General Partnership (9) [ ] IRA/Keogh/SEP
(2) [ ] S Corporation (6) [ ] Limited Partnership (10) [ ] Exempt Organization
(3) [ ] Estate/Trust (7) [ ] LLP (11) [ ] Disregarded Entity
(4) [ ] C Corporation (8) [ ] LLC

C Is this partner a foreign partner? • [ ] Yes [X] No

D Enter partner's percentage (without regard to special allocations) of: (i) Before decrease or termination (ii) End of year

Profit sharing ______ % • ______ %
Loss sharing ______ % • ______ %
Ownership of capital ______ % • ______ %

E Partner's share of liabilities:
Nonrecourse • $ ______
Qualified nonrecourse financing • $ ______
Other • $ ______

F Tax shelter registration number ______

G (1) Check here if this is a publicly traded partnership as defined in IRC Section 469(k)(2) [ ]
(2) Check here if this is an investment partnership (R&TC Sections 17955 and 23040.1) [ ]

H Check here if this is: • (1) [ ] A final Schedule K-1 (565) (2) [ ] An amended Schedule K-1 (565)

I Is this partner a nonresident of California? [ ] Yes • [X] No

J Analysis of partner's capital account:

Check the box: • [X] Tax Basis • [ ] GAAP • [ ] Section 704(b) Book • [ ] Other (explain)

(a) Capital account at beginning of year	(b) Capital contributed during year	(c) Partner's share of line 3, line 4, and line 7, Form 565, Schedule M-2	(d) Withdrawals and distributions	(e) Capital account at end of year, combine column (a) through column (d)
• 0.	•	• 15,874.		• 0.

Caution: Refer to Partner's Instructions for Schedule K-1 (565) before entering information from this schedule on your California return.

	(a) Distributive share items	(b) Amounts from federal Schedule K-1 (1065)	(c) California adjustments	(d) Total amounts using California law. Combine column (b) and column (c)	(e) California source amounts and credits
Income (Loss)	1 Ordinary income (loss) from trade or business activities			•	▶
	2 Net income (loss) from rental real estate activities			•	▶
	3 Net income (loss) from other rental activities				
	4 Portfolio income (loss):				
	a Interest			•	▶
	b Dividends			•	▶
	c Royalties			•	▶
	d Net capital gain (loss)			•	▶
	e Other portfolio income (loss). Attach schedule			•	▶
	5 Guaranteed payments to partners			•	▶
	6a Total Gain under IRC Section 1231 (other than due to casualty or theft)			•	▶
	b Total Loss under IRC Section 1231 (other than due to casualty or theft)			•	▶
	7a Total other income. Attach schedule. Line 22	15,874.		• 15,874.	▶
	b Total other loss. Attach schedule			•	▶
Deductions	8 Charitable contributions				
	9 Expense deduction for recovery property (R&TC Sections 17267.2, 17267.6, 17268, and IRC Section 179). Attach schedule				
	10 Deductions related to portfolio income. Attach schedule				
	11 Other deductions. Attach schedule				

Partner 94

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RETURN FUND II, LLC 20-3049379

	(a) Distributive share items	(b) Amounts from federal Schedule K-1 (1065)	(c) California adjustments	(d) Total amounts using California law. Combine column (b) and column (c)	(e) California source amounts and credits
Investment Interest	12a Interest expense on investment debts				
	b (1) Investment income included on lines 4a, 4b, 4c, and 4e				
	(2) Investment expenses included on line 10				
Credits	13a Total withholding (equals amount on Form 592-B if calendar year partnership)				
	b Low-income housing credit				
	c Credits other than line 13b related to rental real estate activities. Attach sch				
	d Credits related to other rental activities. See instructions. Attach sch				
	e Nonconsenting nonresident partner's tax paid by partnership				
	14 Other credits. Attach required schedules or statements				
Adjustments and Tax Preference Items	15a Depreciation adjustment on property placed in service after 1986				
	b Adjusted gain or loss				
	c Depletion (other than oil and gas)				
	d (1) Gross income from oil, gas, and geothermal properties				
	(2) Deductions allocable to oil, gas, and geothermal properties				
	e Other adjustments and tax preference items. Attach sch				
Other	16a Total expenditures to which an IRC Section 59(e) election may apply				
	b Type of expenditures				
	17 Tax-exempt interest income				
	18 Other tax-exempt income				
	19 Nondeductible expenses				
	20 Distributions of money (cash and marketable securities)				
	21 Distributions of property other than money				
	22 Supplemental information required to be reported separately to each member. Attach additional schedules. See instructions $				

Table 1 — Partner's share of nonbusiness income from intangibles (source of income is dependent on residence or commercial domicile of the partner):

Interest $ ______ Section 1231 Gains/Losses $ ______ Capital Gains/Losses $ ______

Dividends $ ______ Royalties $ ______ Other $ ______

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Table 2 — Partner's share of distributive items.

A Partner's share of the partnership's business income. See instructions $ ______

B Partner's share of nonbusiness income from real and tangible personal property sourced or allocable to California.

Capital Gains/Losses $ ______ Rents/Royalties $ ______

Section 1231 Gains/Losses $ ______ Other $ ______

C Partner's distributive share of the partnership's property, payroll, and sales:

Factors	Total within and outside California	Total within California
Property: Beginning	$	$
Ending	$	$
Annual Rent Expense	$	$
Payroll	$	$
Sales	$	$

Partner 94

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RETURN FUND II, LLC 20-3049379

Schedule K-1 (Form 565) 2006 Line 22, Supplemental Information (continuation) Page 3

Line 7a, column (d)
Other Income

OPTION INCOME	$ 15,874.
Total	$ 15,874.

Partner 94: HARRY T. FERRARI [redacted]